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ABSTRACT

Although having one or more working parents reduces the likelihood that children will live in poverty, it does not provide a guarantee of escaping poverty. This report summarizes results of a project to develop a definition of working poor families and to provide a baseline of descriptive information about them. The primary data sources for the study were the 1987, 1988, and 1990-1993 panels of the Survey of Income and Program Participation, and the Current Population Survey for 1996 and 1997. Working poor families are defined as those in which either two parents worked at least 35 hours per week or a single parent worked at least 20 hours per week and had an income below the federal poverty line. Findings indicated that in 1996, children living in families not meeting the work standard were seven times as likely to be poor as children living in working families. There were substantial differences between working poor families and poor families not meeting the work standard with respect to parent education, home ownership, health insurance coverage, car ownership, and child care costs. The differences illustrate some obstacles to meeting the objectives of welfare reform. There were also important differences between working poor families and more prosperous working families in terms of home and car ownership, paid child care participation, and health insurance. These findings have implications for public policies intended to lift working families with children out of poverty. (KB)

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Working Poor Families with Children: A Statistical Portrait

Increasing poor families' employment and earnings and decreasing child poverty are two explicit objectives of the 1996 federal welfare reform law.[1] However, imposing a work requirement does not guarantee that a family will escape poverty. In a statistical portrait of working poor families with children at the start of welfare reform (1996), Child Trends found that 5 million poor children lived in families that met a work standard similar to the work requirements in the 1996 welfare reform law.

Who are *working poor* families?

There is no generally accepted definition of "working poor." For its statistical portrait of working poor families with children in 1996, Child Trends developed the following definition, in consultation with several leading scholars:

- Working poor families with children are families whose incomes are below the federal poverty threshold ($16,036 for a family of four in 1996)[2] and in which either two parents together worked at least 35 hours a week or a single parent worked at least 20 hours a week. This work standard is similar to that established by the 1996 welfare reform law.

How likely is it for children in working families to be poor?

In 1996, children living in families not meeting the work standard were seven times as likely to be poor as children living in working families.

- Among children living in families that met the work standard in 1996, only 9 percent were poor, compared to 63 percent of children in families not meeting the work standard.
- Among children living in married-couple families meeting the work standard, only 5 percent were poor, compared to 54 percent of children in married-couple families not meeting the work standard.
- Among children living in single-mother families meeting the work standard, 24 percent were poor, compared to 76 percent of children in single-mother families not meeting the work standard.

Moving in and out of poverty: effect of work

While there is substantial movement of children into and out of poverty, children whose parents meet the work standard have higher odds of leaving poverty and lower odds of entering poverty.

- For children living in poor families not meeting the work standard, increasing parental work effort to meet or exceed the work standard is successful at removing the children from poverty *about half the time.*

[1] U.S. Congress, Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Sec. 411.

[2] The official poverty standard has many deficiencies that have been carefully described elsewhere. The most important deficiencies for purposes of this study are that refunded Earned Income Tax Credit (EITC) payments and non-cash benefits (e.g., Food Stamps) are not included as economic resources, income and payroll taxes are not deducted from income, and work-related expenses (especially child care) are not deducted from income.

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- Conversely, having one's parents meet the work standard for two consecutive years helps nonpoor children avoid falling into poverty. For children who were not poor in 1993 and whose parents met the work standard in both 1993 and 1994, the likelihood of moving into poverty in the second year was only 2 percent.

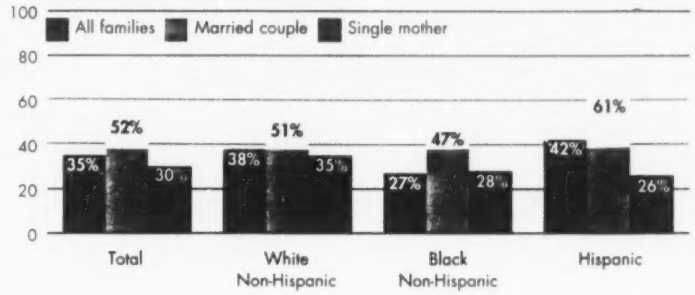
How common is it for children in poverty to have working parents?

Although children living in a working family have a substantially lower likelihood of being poor, 5 million children lived in poor families that met the work standard in 1996.

- As shown in Figure 1, 52 percent of children in poor, married-couple families had parents who met the work standard.
- In contrast, only 30 percent of children in poor, single-mother families had a parent who met the work standard.
- Among the three largest racial/ethnic groups,[3] poor Hispanic children living in married-couple families were the most likely (61 percent) to have parents meeting the work standard. In contrast, poor Hispanic children living in single-mother families were the least likely (26 percent) to have their parent meet the work standard.

FIGURE 1

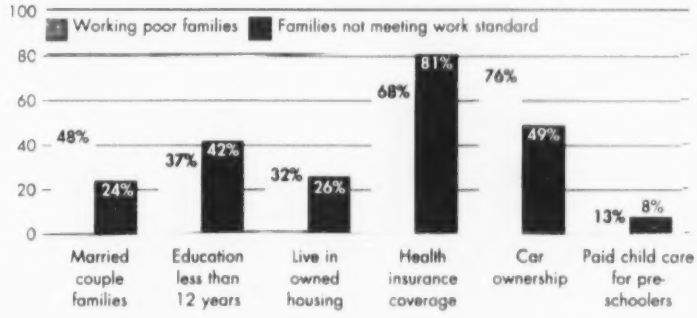
Percentage of poor children whose families meet the work standard, by race/ethnicity, 1996



Source: Child Trends' analyses of March 1997 Current Population Survey

FIGURE 2

Percentage of children with selected characteristics in working poor families and poor families not meeting work standard, 1996[1]



Source: Child Trends' analyses of March 1997 Current Population Survey and 1993 panel of the Survey of Income and Program Participant

[1]Car ownership statistics are for 1994; child care statistics are for 1993

How are children in *working poor* families different from children in poor families not meeting the work standard?

Compared with children in poor families not meeting the work standard, children in working poor families are (see Figure 2):

- more likely to live with both parents;
- more likely to have at least one parent who has completed 12 years of education;
- more likely to live in owner-occupied housing;
- more likely to live in a family that owns a car;
- more likely to be in preschool child care paid for by parents; and
- *less* likely to be covered by health insurance.

These differences illustrate some of the obstacles to meeting the objectives of welfare reform:

Education. 42 percent of the parents of children in poor families not meeting the work standard lack a high school diploma, a potential obstacle to getting and keeping a job,

[3] Statistics for Asian children are not shown due to the small sample.

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especially in a labor market that is less vibrant than today's.[4]

- Providing financial assistance and time to help these parents complete their high school education conflicts with the goal of immediately increasing their work effort. Given the already heavy time demands on working single mothers, it seems unlikely that many of them would be able to devote time to obtaining a high school diploma or a post-secondary education.
- This finding underscores the importance of encouraging students who are still in school to earn a high school diploma and consider post-secondary education.

Child Care. A higher percentage of preschool age children in working poor families are in child care arrangements paid for by their parents than are poor children whose parents are not meeting the work standard. This suggests that some poor parents may have to pay for child care when they increase their work effort. Since child care costs can consume a substantial percentage of working poor families' income, on-going subsidization of child care costs may be necessary.

Health Insurance. The low health insurance coverage rate for children in working poor families suggests that coverage rates for children may fall as poor families not now meeting the work standard make the transition to work, although this may change as implementation of the Child Health Insurance Program (CHIP) proceeds.

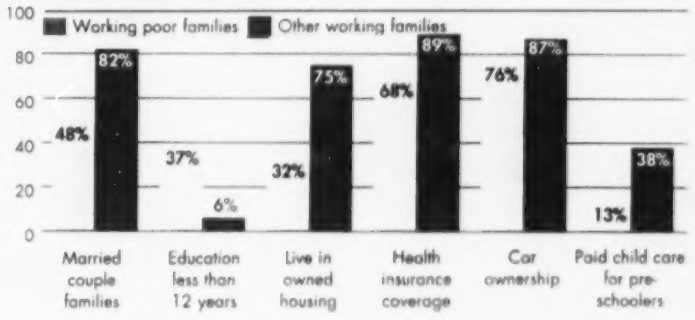
How are working poor families different from other, more prosperous, working families?

While there are substantial differences between working poor families and poor families not meeting the work standard, there are also important differences between working poor families and other, more prosperous, working families. (See Figure 3.)

- A high school diploma is nearly universal for at least one parent in working families above the poverty line.
- Children in more prosperous working families are more likely to participate in paid child care, presumably because their families are more able to afford it. Of those working poor families paying for child care for their preschoolers in 1993, half paid more than 20 percent of their family income, and one out of five paid more than 40 percent of their family income.
- Children in more prosperous working families are twice as likely to live in owner-occupied housing. Car ownership rates and health insurance coverage rates are also higher among more prosperous working families.

FIGURE 3

Percentage of children with selected characteristics in working poor and other working families, 1996[1]



Source: Child Trends' analyses of March 1997 Current Population Survey and 1993 panel of the Survey of Income and Program Participant

[1]Car ownership statistics are for 1994; child care statistics are for 1993

These findings have several implications for public policies intended to lift working families with children out of poverty:

- Substantial investments in parents' human capital — one option for increasing parents' income — may be difficult to undertake if parents are expected to make a substantial work effort at the same time.
- Further expansion of the earned income tax credit (EITC),[4] another policy approach for increasing the incomes of working poor parents, is consistent with the goals of welfare

[4]As of 1997, working families with at least two children could qualify for an EITC as large as $3,656, compared with only $851 ten years earlier.

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reform. The EITC encourages expanded work effort by increasing the amount of disposable income received for each hour of employment. A recent study credits the EITC with moving the families of 2.4 million children above the poverty threshold.[5]

- Encouraging single parents to marry is a third approach proposed by some to help families avoid poverty. Marriage provides a family with at least the potential for two earners, and two parents working full-time can generally escape poverty as measured by the official standard.
- However, many of the programs that have been set up to provide assistance to low-income families with children weaken the economic incentive for a single parent to get married. Both the EITC and many needs-tested transfer programs phase out benefits as income increases, and these phase-out provisions often apply at or near the poverty threshold.[6] These phase-out features also reduce the incentive for parents to increase hours worked or invest in education or training to increase their wage rates. Although it is impossible to eliminate altogether these "phase-out" problems, it is possible (at a cost to the federal treasury) to adjust upwardly the ranges at which they apply or to reduce the "tax rates" they implicitly impose.

Summary

Although having one or more working parents reduces the likelihood that children will live in poverty, it does not provide a guarantee of escaping poverty. Thus, if welfare reform succeeds in moving more parents into the labor market, more working poor families may be a consequence.

We can expect the transition from welfare to working poor to be difficult (especially in a labor market that is less robust than today's), because poor parents not meeting the work standard are at a competitive disadvantage in the labor market compared with working poor parents. In particular, parents not meeting the work standard are less likely to have graduated from high school and less likely to own a car.

Moving working poor families above the poverty line may be even more difficult since working poor parents are at a similar competitive disadvantage in the labor market compared with other working parents. In short, if eradicating child poverty is the objective, welfare reform is only the first step in a long and difficult process.

This research brief summarizes a longer report by Richard Wertheimer, Ph.D., "Working Poor Families With Children (1999, Child Trends: Washington, DC), produced with support from the Foundation of Child Development. Copies of this report are available on Child Trends' web site, www.childtrends.org, or from Child Trends' publication office, 202-362-5580.

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[5]Center on Budget and Policy Priorities (1998), "Strengths of the Safety Net: How the EITC, Social Security, and Other Government Programs Affect Poverty," Washington, D.C.

[6]For example, in 1997, for a family with two children earning between $11,930 and $29,290, the EITC was reduced by 21 cents for every dollar of additional earnings. This phaseout "tax" is imposed on top of the federal payroll tax rate, the federal income tax rate, and the marginal state income tax rate.